

Report of the Auditor-General to the Limpopo Provincial Legislature and the Council on Greater Letaba Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Letaba Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and [insert title of the statement of comparison of budget information with actual information] for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified audit opinion

Irregular expenditure

6. The municipality did not investigate and evaluate the full extent of the irregular expenditure that was incurred in 2014. Consequently, I was unable to determine whether any adjustment to the opening balance of irregular expenditure as disclosed in note 38 to the financial statements was necessary as it was impractical to do so.

Opinion

7. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Greater Letaba Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material impairment

10. As disclosed in note 6 to the financial statements, material impairment to the amount of R82 579 280 on consumer debtors were incurred as a result of poor collection practices.

Material losses

11. As disclosed in note 38 to the financial statements, material losses to the amount of R3 208 869 on electricity distribution losses were incurred as a result of illegal connections, faulty meters, incorrect meter readings and other sundry distribution losses.

Unauthorised expenditure

12. As disclosed in note 36 to the financial statements, the municipality incurred unauthorised expenditure amounting to R42 261 407 due to the votes being overspent.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The supplementary information set out on pages 67 to 75 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities or objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities or objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development priority (KPA 2): Basic service delivery and infrastructure on pages 12 to 23
 - Development priority (KPA 3): Local economic development on pages 24 to 28
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected development priorities or objectives are as follows:

KPA 2: Basic service delivery and infrastructure

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.
24. I did not identify any material findings on the usefulness of the reported performance information for KPA 2: Basic service delivery and infrastructure.
25. I did not identify any material findings on the usefulness and reliability of the reported performance information for KPA 3: Local economic development.

Additional matter

26. I draw attention to the following matter :

Achievement of planned targets

27. Refer to the annual performance report on pages 12 to 23 for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified conclusions expressed on reliability of the reported performance information in paragraphs 14 - 281 of this report.

Material inconsistencies in other information included in the annual report

28. Planned indicators included in the integrated development plan were not consistent with the service delivery and budget implementation plan. Planned objectives specified in the service delivery and budget implementation plan for the year under review were not consistent with the integrated development plan submitted for audit purposes. This was due to lack of review and monitoring by management in ensuring that all planned targets are reported on.

Unaudited supplementary information

29. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows :

Strategic planning and performance management

31. The performance management system and related controls were not in place as the processes of performance planning, monitoring, measurement, review and reporting and how it is conducted, organised and managed, including determining the roles of the different role-players is not described or documented, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Annual financial statements

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of items identified by the auditors in the submitted financial statements were not corrected, the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committees

33. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

Procurement and contract management

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by *Supply Chain Management regulation* (SCM regulation) 17(a) and (c).
35. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
36. Twenty contracts and one quotation were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the *Preferential Procurement Regulations*.
37. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of *Preferential Procurement Regulation 9*.
38. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
39. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
40. Seventeen contracts and one quotation were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

41. Awards were made to providers who are in the service of other state institutions and whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
42. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for councillors and staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
43. Seven contracts and one quotation were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Expenditure management

44. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
45. The municipality did not pay all money owing to suppliers within 30 days of receiving the relevant invoice or statement as prescribed by section 65 (2) of the MFMA.

Asset management

46. The municipality's assets were not valued in accordance with standards of generally recognised accounting practice as required by section 63 (2)(b) of the MFMA.

Internal control

47. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in [the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report]

Leadership

48. The municipality did not adequately review the financial statements and the annual performance report prior to their submission for audit and thus a number of material misstatements were identified.
49. The municipality did not have sufficient monitoring controls to recognise and measure assets according to the approved asset policy and reconcile accounting records.
50. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme/objective level and for purposes of taking corrective action.

Financial and performance management

- 51. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- 52. Management did not implement daily and monthly processing controls as a result performance report was not adequately reviewed for accuracy.
- 53. The municipality did not prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- 54. Compliance with applicable laws and regulations was not adequately reviewed and monitored.

Governance

- 55. The audit committee did not function throughout the year as members were only appointed two months before year-end. The newly appointed audit committee which took over from its predecessor did not have sufficient time to fully turn around the municipality.
- 56. There was a slow response in implementing the recommendations made by internal auditors. Furthermore, there is a lack of commitment in ensuring that the internal audit recommendations are implemented.

Auditor-General

Polokwane

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

